

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7114

BILL NUMBER: HB 1354

NOTE PREPARED: Jan 19, 2004

BILL AMENDED:

SUBJECT: Health Benefit Plans.

FIRST AUTHOR: Rep. Orentlicher

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires an employer with at least 10 full-time employees to offer at least one health benefit plan. It requires an employer to allow an employee: (1) to choose whether to participate in the plan; and (2) to pay the employee's cost of the plan through payroll deduction. It also permits an employer to pay or reimburse all or a part of the employee's cost to participate in the plan on an equal basis. The bill provides a credit of up to \$500 against state tax liability for the first year in which an employer offers a health benefit plan and requires an employer that claims the credit to notify employees who participate in the health benefit plan that the employee's contributions to the plan are included in the employee's state adjusted gross income.

Effective Date: July 1, 2004; January 1, 2005.

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate the credit. The Department's current resources should be sufficient to absorb additional costs associated with the implementation of the credit.

The Indiana Department of Labor will incur expenses associated with monitoring compliance. This may include the development of additional forms and computer programs. The Department's current resources should be sufficient to absorb the costs associated with the implementation of this bill.

Explanation of State Revenues: The bill would decrease Adjusted Gross Income Tax and Financial Institutions Tax liabilities for employers providing health benefits to their employees for the first time. The bill would increase Insurance Premiums Tax revenues as more insurance policies are underwritten in the state. The bill would have no effect on the state Adjusted Gross Income Tax liabilities of individuals who participate in health insurance plans offered by an employer as a result of this bill. The net revenue loss due to this bill is estimated to range from \$0.9 M to \$11.2 M. The bulk of the fiscal impact will be distributed between FY 2005 and FY 2006.

Adjusted Gross Income Tax Impact: The bill establishes a credit for employers that offer at least one health

benefit plan to employees for the first time. The credit is equal to the lesser of: (1) \$500, or (2) \$200 for the first enrolled employee plus \$50 for each additional employee enrolled during the taxable year. An employer claiming the credit must offer health insurance for at least 24 consecutive months after the taxable year in which the health insurance plan is initially offered. The bill contains a “claw-back” provision where employers who fail to meet this requirement have to pay back the tax credit. The credit is nonrefundable, but unused credit may be carried forward to subsequent years. The tax credit may not be carried back to previous years. In addition, the bill requires that an employer that claims the credit notify employees who participate in the health benefit plan of the amount of the employee’s eligible benefits that are included in the employee’s state adjusted gross income for the first and subsequent taxable year after the employer takes the credit. Eligible benefits are the total amount of health insurance premiums withheld from the employee’s federal adjusted gross income. The credit is available beginning January 1, 2005.

In addition to the credit, the bill requires that Indiana employers that employ at least 10 full-time employees offer at least one health benefit plan to full- and part-time employees and their dependents. This requirement takes effect July 1, 2004. The employee’s participation in the health benefit plan is voluntary, and an employee may pay his or her share of the plan cost using a payroll deduction. The employer is not required to pay a share of the cost of the health benefit plan.

Given both provisions of the bill, the impact of this bill on corporate adjusted gross income is a function of:

- (1) The number of employers currently not providing a health benefit plan to employees that would be required to do so under the bill and that take the tax credit.
- (2) The number of employers exempt from the health plan mandate (those with fewer than 10 full-time employees) that would offer a health benefit plan and take the tax credit.

According to recent survey results, the average employer contribution to premium costs is \$2,875 per employee for single coverage and \$6,656 per employee for family coverage. Given that the credit is likely to be a relatively small portion of the cost of providing health insurance coverage for the average employer, it is unlikely that the credit will have a substantial effect on the number of employers with fewer than 10 full-time workers that offer a health benefit plan and take the credit.

Recent survey results suggest that in 2003 approximately 53,480 businesses (7,585 Indiana businesses with 10 or more employees and 45,895 businesses with less than 10 employees) currently do not offer a health benefit plan to employees. Of these businesses, a number of them would have sufficient tax liability to take the full credit in a given year. The employer tax credit is estimated to decrease the income tax liabilities of businesses by \$1.8 M to \$12.8 M. The lower value is based on the assumption that only employers with 10 or more workers take the credit, while the upper value of the range is based on the assumption that all employers take the credit. The decrease in Adjusted Gross Income Tax revenue will be distributed in FY 2005 and FY 2006 depending on the firm’s fiscal year. The carryforward is estimated to total \$1.1 M to \$8.0 M under the same assumptions. The bulk of the carryforward is likely to be used in FY 2007 and FY 2008.

The bill requires that employee contributions to health benefit plans be added back to Indiana Adjusted Gross Income (AGI) for the first taxable year in which the health benefit plan is offered and the next taxable year. This provision prevents a decrease in state individual Adjusted Gross Income Tax revenues for these two years. Without this provision the decrease in individual Adjusted Gross Income Tax revenues would be approximately \$0.5 M to \$1.1 M per year. These estimates are based on the following assumptions: (1) employers offering a health benefit plan for the first time as a result of the bill would require participating employees to pay all or a substantial portion of the insurance premium, which would reduce the participation

rate among employees. A 10% participation rate is used to calculate the estimates. (2) Employees pay health insurance premiums with pre-tax dollars. (3) The lower value assumes that only firms with 10 or more employees offer the health benefit plan for the first time, while the upper value is based on the assumption that all employers offer a health benefit plan for the first time.

Revenue from the corporate AGI tax and the Financial Institutions Tax is deposited in the state General Fund. A portion of the Corporate AGI is deposited in the Property Tax Replacement Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Insurance Premiums Tax Impact: The bill would increase revenue from the Insurance Premiums Tax as health insurance premiums written in Indiana increase due to the insurance coverage requirement. According to a recent survey, the average annual premium cost for health insurance is \$3,383 for single coverage and \$9,068 for family coverage. The potential increase in the Insurance Premiums Tax would be approximately \$0.9 M to \$1.6 M in FY 2005 and \$0.8 M to \$1.5 M in FY 2006 and after (due to changes in the Insurance Premium Tax rate). The estimates are based on the following assumptions: (1) 10% of employees participate in the health benefit plan of employers offering the plan for the first time. (2) The lower value assumes that only firms with 10 or more employees offer the health benefit plan for the first time, while the upper value is based on the assumption that all employers offer a health benefit plan for the first time. A 10% employee participation rate is conservative given that recent survey results suggest that over 84% of workers in firms offering health benefits participate in the health plan. In Indiana, approximately 12.3% of covered employees enroll in HMO plans, which do not pay the Insurance Premiums Tax. This is accounted for in these estimates.

The Insurance Premiums Tax is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill requires that the employees of employers claiming the credit add back the value of the employee's health benefit contribution to state Adjusted Gross Income for the taxable year in which the employer offers health benefits and the following year. Therefore, the bill will have no impact on local individual adjusted gross income tax revenues for these two years. The employee's health benefit contribution not added back after these two years would decrease the level of taxable income for these employees. As a result, counties imposing a local option income tax (CAGIT, COIT, CEDIT) would experience an indeterminable decrease in revenue from these taxes beginning two years after businesses have taken the credit..

State Agencies Affected: Department of State Revenue, Indiana Department of Labor.

Local Agencies Affected: Counties with local option sales tax (third and subsequent years after the credit is taken.)

Information Sources: Kaiser Family Foundation, Employer Health Benefits 2003 Annual Survey, available at <http://www.kff.org/insurance/ehbs2003-5-set.cfm>; and State Health Facts Online available at <http://www.statehealthfacts.kff.org/>; OFMA Corporate Income Tax database; FY 2003 Indiana Handbook of Taxes, Revenues, and Appropriations, Bureau of the Census, County Business Patterns.

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